COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE APPLICATION OF WESTERN KENTUCKY GAS COMPANY FOR AUTHORITY TO ADJUST ITS RATES AND CHARGES) CASE NO. 8227

O R D E R

On October 9, 1981, the Commission entered an Order approving an increase in rates for Western Kentucky Gas Company ("Western"). As part of its Order, the Commission set a hearing for January 15, 1982, to allow Western and other interested parties an opportunity to present testimony regarding profits on sales of gas from storage. The hearing was held as scheduled with the Consumer Protection Division of the Attorney General's Office present.

Discussion

The Commission's Order dated October 9, 1981, described the method by which profits on Western's prepaid gas were earned and the purpose of the Commission's inquiry, as follows:

> Applicant maintains an inventory of natural gas stored underground in zone three, the only zone in which it has any storage activity. Natural gas purchased from Texas Gas Transmission Corporation is injected into storage during off-peak usage periods and withdrawn from storage to meet peak usage during the winter heating season. Therefore, a lag exists between the date the Applicant injects natural gas into storage and the date it is withdrawn and sold to its customers.

> Applicant assigns to gas withdrawn from storage the average cost of all gas injected into storage. However, Applicant charges its customers the rates in its tariffs in effect at the time the gas is withdrawn from storage which include those approved in its most recent PGA filing. Since the PGA rate is designed to allow recovery of 100% of the current increase in the cost of gas purchased, Applicant is recovering more than the average cost of gas withdrawn from inventory through these rates.
>
> In the current case, the Commission has adjusted the test year cost of gas to reflect the supplier rates in Case No. 7157-JJ. This results in the inclusion of a cost of gas of $2.8941 per mcf in Applicant's base rates. The average cost of gas in storage at the end of the test year was $1.7013 per mcf. It appears to the Commission that the cost of gas sold from inventory will be lower than the cost per mcf included in Applicant's base rates. Therefore, the Commission concludes that a hearing should be held to determine if this is in fact the case and if Applicant should be required to refund profits on sales from storage to its customers. (Footnotes omitted.)

Western's witness, Mr. Craig, in his testimony before the Commission, generally agreed that the withdrawal of gas from storage and the PGA rates produced "savings" on the sales of gas from storage. However, Mr. Craig further stated that since these "savings" were reflected in Western's earnings, these earnings could not be excessive as Western had not been earning in excess of the returns found fair, just and reasonable by the Commission. Moreoever, Mr. Craig said that absent these "savings", Western would be required to file general rate increases more frequently which could in fact be more costly to the ratepayer because of the expenses associated with a general rate case.

The Commission has reviewed Western's earnings and finds that it has never substantially exceeded and is not presently exceeding the return found fair, just and reasonable by the Commission. Moreover, the Commission also recognizes that it had been approximately 3 years between Western's general rate filings during a period of unprecedented double-digit inflation and high interest rates. Therefore, the Commission is of the opinion that Western should not be required to refund the profits on prepaid gas since doing so would undoubtedly result in an immediate general rate case and ultimately higher rates for Western's customers.

The Commission will instead require Western to continue to make monthly determinations of this profit and will further continue to monitor Western's returns to determine any excessive earnings which, if found, could necessitate a refund.

IT IS THEREFORE ORDERED that Western shall continue to calculate its monthly profits from the sales of gas from storage.

IT IS FURTHER ORDERED that this case be and it hereby is dismissed without prejudice to open a new case regarding the profits on stored gas should Western's jurisdictional earnings warrant.

Done at Frankfort, Kentucky, this 5th day of August, 1982.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AMENDED APPLICATION OF FARMDALE UTILITIES, INC. FOR AUTHORITY TO ACQUIRE THE STOCK AND TO OPERATE THE SEWAGE TREATMENT PLANT OWNED BY PROMOTIONAL INDUSTRIES, INC. IN JEFFERSON COUNTY, KENTUCKY, AND AUTHORITY TO ACQUIRE AND INCUR THE NECESSARY DEBT FINANCING TO PURCHASE PROMOTIONAL INDUSTRIES, INC.	)	CASE NO. 8458

O R D E R

On February 17, 1982, Farmdale Utilities, Inc., ("Farmdale") filed an application with the Commission seeking approval of the transfer of all the outstanding stock of Promotional Industries, Inc., ("Promotional") from Author Howard, Ralph Williams, and John Dorsey pursuant to a purchase agreement entered into by Cogan Company, Inc., or its nominee Farmdale and the stockholders of Promotional dated October 22, 1981. This agreement was filed with the application as Exhibit 2.

A public hearing was held on May 19, 1982, at the Commission's offices in Frankfort, Kentucky, with all parties of record in attendance.

On June 11, 1982, Farmdale filed an amended application with the Commission asking to include the approval of financing in the application. Farmdale requested authorization to borrow

$60,000 to acquire the outstanding stock of Promotional at which time Promotional will be liquidated and assumed by Farmdale.

COMMENTARY

Promotional is located in Jefferson County, Kentucky, and consists of only the real and personal property of Pleasant Valley Waste Treatment System. The plant serves 245 residential customers, 200 apartments and 7 commercial customers and has a treatment capacity of 150,000 gallons per day. In addition, negotiations have been completed with Farmdale Adult Towers, Inc., to connect a 106 unit low-rent, high rise housing project.

Farmdale received its Articles of Incorporation on October 30, 1981, with Carroll F. Cogan being sole stockholder and president.

FINDINGS IN THIS MATTER

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. Farmdale is ready, willing and able to purchase, operate and provide adequate and reliable service to the customers presently served by Promotional. Furthermore, the stockholders of Promotional are ready and willing and they desire to sell, inasmuch as they wish to divest themselves of the ownership and operation of Pleasant Valley Waste Treatment Plant.

2. The quality of service to the present customers of Promotional will not suffer in that Andriot-Davidson Service Company, Inc., which has knowledge and experience in the operation and maintenance of sewer treatment facilities, will be

employed to operate the system.

3. The agreed-upon purchase price is $90,000 which was determined through negotiations between Farmdale and the stockholders of Promotional.

4. Farmdale has adopted the tariffs, rates, rules and regulations filed with the Commission by Promotional for furnishing sanitary sewer service to its customers.

5. The sewer treatment plant third party agreement entered on November 13, 1981, by and between Promotional and Citizens Fidelity Bank and Trust Company has been filed with this application as Exhibit 3 and this agreement is transferable to and adopted by Farmdale.

6. Farmdale has filed with the Commission its Articles of Incorporation and Certificate of Incorporation as well as the bylaws adopted by its board of directors.

7. Farmdale should maintain its books of account in accordance with the Uniform System of Accounts for Sewer Utilities prescribed by this Commission. Accounting for an acquisition includes:

A. Recording the utility plant acquired at its original cost to the person first devoting it to public service, estimated if not known, in the appropriate utility plant in service accounts;

B. Crediting the requirements for accumulated provision for depreciation and amortization applicable to the original cost of the properties acquired to the appropriate account for accumulated provision for depreciation and amortization;

C. Transferring the cost of any nonutility property to Account 121, Nonutility Property;

D. Crediting contributions in aid of construction to Account 271, Contributions In Aid of Construction; and

E. Including in Account 108, Utility Plant Acquisition Adjustment, any difference between the purchase price and the original cost of the utility plant and nonutility property less the amounts credited to accumulated depreciation and amortization reserves and contributions in aid of construction.

8. Books and records should be maintained for the Pleasant Valley Waste Treatment System independent of any other assets of Farmdale. In addition, common stock of Farmdale should be prorated between this treatment plant and any other operations of Farmdale on the basis of net book value at the time of acquisition.

9. While legal and proper for general accounting purposes, these acquisition transactions, if not at "book value," can either increase or decrease the debt and/or equity on the utility's books. Therefore, Farmdale and its stockholders are hereby apprised that the Commission will not allow, for rate-making purposes, interest charges on debt that exceed those charges which would have been incurred to finance the original cost of plant in service excluding any acquisition adjustment less accumulated depreciation and contributions in aid of construction. Allowable interest charges should be computed using the weighted average cost of debt. The Commission also will not allow a return on equity or amortization of an acquisition adjustment that resulted from this transaction for rate-making purposes.

10. Farmdale Adult Towers, Inc., has agreed to a connection fee of $37,500 payable to Farmdale with $30,000 of the connection fee to be used as partial payment on the $90,000 purchase price and the remainder to be retained by Farmdale to make necessary repairs.

11. Farmdale is requesting authorization to borrow $60,000 from Liberty National Bank and Trust Company of Louisville ("Liberty"). The financing is in the form of a first mortgage loan which has been filed as part of the evidence of record in this matter. The loan has a term of 10 years and an interest rate of 16.5 percent with monthly payments being $1,023.85.

12. Farmdale should be able to reduce its operating costs for economies of scale inherent in Mr. Cogan's management and ownership of a number of sewer utilities under this Commission's jurisdiction.

13. The Commission will review Farmdale's financial statements to be filed as a part of its Annual Report for 1982 to determine the appropriateness of existing customer rates at that time.

14. Should operating expenses not be reduced as noted in finding number 12, the Commission will upon its own motion institute a formal investigation of Farmdale's rates and operations.

15. The transfer of the stock of Promotional from its stockholders to Farmdale, as nominee, should be approved.

ORDERS IN THIS MATTER

The Commission, on the basis of the evidence of record and the findings herein set forth:

HEREBY ORDERS that the transfer of Promotional from its stockholders to Farmdale be and it hereby is approved.

IT IS FURTHER ORDERED that the financing of funds of $60,000 as described in finding number 11 be and it hereby is approved.

IT IS FURTHER ORDERED that in future rate cases before the Commission allowable interest charges shall be determined as set out in finding number 9.

IT IS FURTHER ORDERED that Farmdale shall adopt the existing rates, rules and regulations filed with and approved by the Commission for Promotional.

IT IS FURTHER ORDERED that Farmdale shall file with this Commission within 30 days from the date of this Order its original tariff sheets setting forth rates, rules and regulations as required by KRS 278.160.

IT IS FURTHER ORDERED that Farmdale shall file with this Commission within 30 days from the date of this Order the balance sheets of Promotional and Farmdale at the date of the transfer, the final journal entries required to consummate the transfer and the resulting balance sheet subsequent to the assumption of Promotional by Farmdale.

Nothing herein contained shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

Done at Frankfort, Kentucky, this 5th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Leon Carrigan
Commissioner

ATTEST:

Secretary